

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Hillsdale County Medical Care Facility	County Hillsdale
Audit Date December 31, 2005	Opinion Date March 10, 2006	Date Accountant Report Submitted To State: April 3, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300		City Portage	State MI
ZIP 49002			
Accountant Signature 			

Hillsdale County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2005**

Hillsdale County Medical Care Facility

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Independent Auditor's Report

To the Hillsdale County Department
of Human Services Board
Hillsdale County Medical Care Facility

We have audited the accompanying balance sheet of Hillsdale County Medical Care Facility (a component unit of Hillsdale County) as of December 31, 2005 and 2004 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale County Medical Care Facility at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 10, 2006

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Hillsdale County Medical Care Facility

Balance Sheet

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 465,754	\$ 21,591
Residents accounts receivable (Note 3)	1,176,991	2,082,435
Taxes receivable	696,980	657,863
Other current assets	67,829	86,430
Total current assets	2,407,554	2,848,319
Property and Equipment (Note 4)	3,570,765	3,761,976
Other Assets	13,612	-
Total assets	\$ 5,991,931	\$ 6,610,295
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 242,309	\$ 245,909
Due to County	-	1,028,337
Current portion of long-term debt (Note 5)	170,000	95,000
Residents trust liability	19,779	17,493
Accrued liabilities and other:		
Accrued compensation and related liabilities	143,435	112,336
Accrued compensated absences	215,290	204,710
Accrued workers' compensation liability (Note 8)	180,000	200,000
Deferred revenue - Proportionate share program	-	49,070
Deferred taxes	696,980	657,863
Other accrued liabilities	381,695	350,560
Total current liabilities	2,049,488	2,961,278
Long-term Debt (Note 5)	2,100,000	1,790,000
Net Assets		
Invested in capital assets - Net of related debt	1,300,765	1,876,975
Unrestricted	541,678	(17,958)
Total net assets	1,842,443	1,859,017
Total liabilities and net assets	\$ 5,991,931	\$ 6,610,295

Hillsdale County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
Operating Revenue		
Net service revenue	\$ 10,264,048	\$ 10,005,893
Other operating revenue	40,321	46,841
Proportionate share reimbursement	297,595	328,820
Total operating revenue	10,601,964	10,381,554
Operating Expenses		
Salaries	6,146,817	6,227,506
Other expenses	5,082,156	5,247,956
Total operating expenses	11,228,973	11,475,462
Operating Loss	(627,009)	(1,093,908)
Other Income (Expenses)		
Interest income	-	1,758
Loss on sale of property	-	(14,458)
Contributions	68,871	64,240
Tax revenue	633,447	601,818
Interest expense	(91,883)	(88,911)
Total other income	610,435	564,447
Decrease in Net Assets	(16,574)	(529,461)
Net Assets - Beginning of year	1,859,017	2,388,478
Net Assets - End of year	\$ 1,842,443	\$ 1,859,017

Hillsdale County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 11,169,492	\$ 9,072,974
Cash paid to employees and suppliers	(10,872,440)	(11,250,670)
Cash received from Proportionate Share Program	248,526	285,546
Other operating receipts	40,321	46,841
Net cash provided by (used in) operating activities	585,899	(1,845,309)
Cash Flows from Noncapital Financing Activities		
Resident trust deposits	2,286	3,815
Contributions	68,871	64,240
Tax revenue	633,447	601,818
Net cash provided by noncapital financing activities	704,604	669,873
Cash Flows from Investing Activities - Interest received	-	1,758
Cash Flows from Capital and Related Financing Activities		
Proceeds received on bonds	535,150	-
Principal payments on long-term debt	(165,000)	(90,000)
Interest paid on long-term debt	(91,883)	(88,911)
Purchase of property and equipment	(96,270)	(72,477)
Funds (repaid to) borrowed from County	(1,028,337)	1,028,337
Net cash (used in) provided by capital and related financing activities	(846,340)	776,949
Net Increase (Decrease) in Cash and Cash Equivalents	444,163	(396,729)
Cash and Cash Equivalents - Beginning of year	21,591	418,320
Cash and Cash Equivalents - End of year	<u>\$ 465,754</u>	<u>\$ 21,591</u>

Hillsdale County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (627,009)	\$ (1,093,908)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	288,719	288,466
Provision for bad debts	(72,758)	164,981
(Increase) decrease in resident accounts receivable	978,202	(1,097,900)
Decrease in other current assets	18,601	12,948
Decrease in accounts payable	(3,600)	(32,554)
Increase (decrease) in other accrued expenses	52,814	(44,068)
Decrease in deferred revenue - Proportionate Share Reimbursement Program	(49,070)	(43,274)
Net cash provided by (used in) operating activities	<u>\$ 585,899</u>	<u>\$ (1,845,309)</u>

There were no significant noncash investing, capital, and financing activities for 2005.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies

Hillsdale County Medical Care Facility (the "Facility") is a 160-bed, long-term care facility owned and operated by Hillsdale County (the "County"). The Facility is a component unit of the County of Hillsdale. It is governed by the Hillsdale County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has not elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Resident Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents resident trust fund deposits at December 31, 2005 and 2004.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	<u>2005</u>	<u>2004</u>
Percent of revenue:		
Medicaid	73 %	72 %
Medicare	16 %	19 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare. Medicaid reimburses the Facility for inpatient routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Medicaid Reimbursement - Recent legislation has been signed by the Governor of Michigan which is expected to impact Medicaid payments to skilled nursing providers; however, approval of a State Plan Amendment from the Center of Medicare and Medicaid Services (CMS) is required to allow implementation. The ultimate effects of the change, if approved, will eliminate the executive order related to the reduction of the Facility's Medicaid variable rate by 5.85 percent retroactive to May 1, 2005. In addition, it would allow for the County facilities to participate in the Medicaid Quality Assurance Supplementation (QAS) program, retroactively effective October 1, 2005. The QAS reimbursement to the Facility will be based on 21.76 percent of the lesser of the Facility's variable rate base or the Class I variable cost limit for every eligible Medicaid day. The tax to be paid by the Facility related to this program will be based on the actual non-Medicare days (using the base year cost report days) at an estimated rate of approximately \$16.00 per day.

Proportionate Share Reimbursement Program - During the years ended December 31, 2005 and 2004, the Facility participated in this program sponsored by the State of Michigan.

In 2005, this program was discontinued by the State. The Facility received one payment in June 2005. The transaction was recorded into revenue in relation to the State fiscal year ended September 30, 2005.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the State fiscal year ended September 30, 2004. The second transaction in October was for the State fiscal year ended September 30, 2005 and therefore was recognized one-quarter in revenue and three-quarters in deferred revenue.

Property Taxes - Taxes are levied on December 1 and payable by February 15. The cities and townships within the County bill and collect the property taxes for the County. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31. The facility has had voter approval to levy up to \$.59 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to \$302,428 and \$447,196 for the years ended December 31, 2005 and 2004, respectively.

Reclassifications - Certain prior year classifications have been changed to correspond with 2005 classifications.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 2 - Deposits

The Facility's deposits are composed of the following:

	2005	2004
Deposits:		
County treasurer	\$ 445,975	\$ 4,096
Bank	19,779	17,495
Total	<u>\$ 465,754</u>	<u>\$ 21,591</u>

Cash - County Treasurer - These funds were under the control of the County treasurer, who deposited these funds with a bank.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility's deposits are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility funds as these funds are only a portion of the total County deposits.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2005	2004
Resident accounts receivable	\$ 1,225,879	\$ 1,515,190
Uncollectible accounts	(95,000)	(450,000)
Medicaid interim payment advances	46,112	1,017,245
Net resident accounts receivable	<u>\$ 1,176,991</u>	<u>\$ 2,082,435</u>

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 3 - Resident Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2005	2004
Medicare	26 %	23 %
Medicaid	61 %	65 %
Other payors	13 %	12 %
Total	100 %	100 %

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land and land improvements	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,637,132	17,780	-	-	6,654,912	10-40
Equipment	461,137	47,707	-	-	508,844	4-20
Construction in progress	-	30,783	-	-	30,783	
Total	7,127,793	96,270	-	-	7,224,063	
Less accumulated depreciation:						
Land and land improvements	29,524	-	-	-	29,524	
Building	3,030,960	244,411	-	-	3,275,371	
Equipment	305,333	43,070	-	-	348,403	
Total	3,365,817	287,481	-	-	3,653,298	
Net carrying amount	\$ 3,761,976	\$ (191,211)	\$ -	\$ -	\$ 3,570,765	

Cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land and land improvements	\$ 29,524	\$ -	\$ -	\$ -	\$ 29,524	10-25
Building	6,282,705	62,315	489,447	(197,335)	6,637,132	10-40
Equipment	709,262	10,162	-	(258,287)	461,137	4-20
Construction in progress	489,447	-	(489,447)	-	-	
Total	7,510,938	72,477	-	(455,622)	7,127,793	
Less accumulated depreciation:						
Land and land improvements	29,524	-	-	-	29,524	
Building	2,968,432	248,234	-	(185,706)	3,030,960	
Equipment	520,559	40,232	-	(255,458)	305,333	
Total	3,518,515	288,466	-	(441,164)	3,365,817	
Net carrying amount	\$ 3,992,423	\$ (215,989)	\$ -	\$ (14,458)	\$ 3,761,976	

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Debt

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>2004</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2005</u>
Series 1998	\$ 1,885,000	\$ -	\$ (95,000)	\$ 1,790,000
Series 2005	<u>-</u>	<u>550,000</u>	<u>(70,000)</u>	<u>480,000</u>
Total long-term debt	<u>\$ 1,885,000</u>	<u>\$ 550,000</u>	<u>\$ (165,000)</u>	<u>\$ 2,270,000</u>

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>2003</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2004</u>
Series 1998	<u>\$ 1,975,000</u>	<u>\$ -</u>	<u>\$ (90,000)</u>	<u>\$ 1,885,000</u>

The bonds payable are summarized as follows:

- The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$2,300,000 in bonds issued during 1998 to construct an addition to the Facility. Principal payments range from \$100,000 in 2006 to \$185,000 in 2018 and interest rates range from 4.60 percent to 4.625 percent annually.
- The Facility has entered into an agreement with the Hillsdale County Building Authority to make all principal and interest payments on \$550,000 in bonds issued during 2005 for capital expenditures. Principal payments range from \$70,000 in 2006 to \$90,000 in 2011 and interest rates range from 2.85 percent to 3.50 percent annually.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 5 - Long-term Debt (Continued)

The following is a schedule by years of bond principal and interest as of December 31, 2005:

Years Ending December 31	Bond Payable	
	Principal	Interest
2006	\$ 170,000	\$ 95,916
2007	180,000	89,101
2008	190,000	81,831
2009	195,000	74,056
2010	205,000	65,971
2011-2015	805,000	210,231
2016-2018	525,000	37,347
Total payments	<u>\$ 2,270,000</u>	<u>\$ 654,453</u>

Note 6 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Hillsdale County. Hillsdale County, including the Facility, participates in the Hillsdale County Employees Retirement Plan, a defined contribution pension plan that covers all employees of the County. The plan provides retirement and death benefits to plan members and their beneficiaries. This information can be requested by writing to: County of Hillsdale, Courthouse, 29 N. Howell, Hillsdale, MI 49242.

The obligation to contribute to, and maintain, the plan for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee of 2 percent. The Facility's contribution requirement is 4 percent of employee gross wages.

Facility contributions for the plan years ended December 31, 2005, 2004, and 2003 were \$215,289, \$224,534, and \$213,768, respectively.

Note 7 - Postretirement Benefits

The Facility provides postretirement medical and life insurance benefits for retired employees. Substantially all employees may become eligible for the benefits if they reach normal retirement age while working for the Facility. Currently, 16 retirees are receiving the benefits. Included in the Facility's operating expenses is approximately \$107,000 and \$80,000 for the cost of retirees' health and life insurance for each of the years ended December 31, 2005 and 2004, respectively.

Hillsdale County Medical Care Facility

Notes to Financial Statements December 31, 2005 and 2004

Note 8 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility is self-insured for workers' compensation claims. Changes in the estimated self-insured liability for the past fiscal years ended December 31, 2005 and 2004 were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 200,000	\$ 200,000
Estimated claims incurred, including changes in estimates	218,962	219,265
Claim payments	(238,962)	(219,265)
Estimated liability - End of year	<u>\$ 180,000</u>	<u>\$ 200,000</u>

The Facility participates in the County's insurance plan with the Michigan Municipal Risk Management Authority risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Additional Information



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To the Hillsdale County Department
of Human Services Board
Hillsdale County Medical Care Facility

We have audited the financial statements of Hillsdale County Medical Care Facility as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

March 10, 2006

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Hillsdale County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2005	2004
Skilled Nursing Services		
Daily room revenue:		
Medicaid	\$ 7,981,621	\$ 7,755,241
Medicare	762,054	860,548
Private pay and other	915,571	921,143
Total daily room revenue:	9,659,246	9,536,932
Ancillary revenue:		
Pharmacy	180,416	208,666
Therapy services	1,162,760	1,319,475
Other ancillary services	192,464	119,667
Total ancillary revenue	1,535,640	1,647,808
Total skilled nursing services revenue	11,194,886	11,184,740
Revenue deductions:		
Provision for contractual discounts	(1,003,596)	(1,013,866)
Bad debt expense	72,758	(164,981)
Total revenue deductions:	(930,838)	(1,178,847)
Net Service Revenue	\$10,264,048	\$10,005,893

Hillsdale County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31		
	2005		2004
	Salaries	Other	Total
Fringe benefits	\$ -	\$ 2,018,922	\$ 2,018,922
Administration	649,125	412,686	1,061,811
Plant operations	146,103	147,267	293,370
Utilities	-	280,364	280,364
Laundry	258,101	40,334	298,435
Housekeeping	327,414	30,198	357,612
Dietary	719,499	440,068	1,159,567
Medical records	20,054	-	20,054
Diversional therapy	277,167	13,798	290,965
Other ancillary services	-	41,695	41,695
Therapy services	148,900	484,438	633,338
Pharmacy	-	182,392	182,392
Nursing	3,600,454	398,847	3,999,301
Depreciation and amortization	-	288,719	288,719
Maintenance of effort	-	302,428	302,428
2005 totals	<u>\$ 6,146,817</u>	<u>\$ 5,082,156</u>	<u>\$ 11,228,973</u>
2004 totals	<u>\$ 6,227,506</u>	<u>\$ 5,247,956</u>	<u>\$ 11,475,462</u>